

**REPORT ON EXAMINATION**  
**OF THE**  
**MT. MCKINLEY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2006**

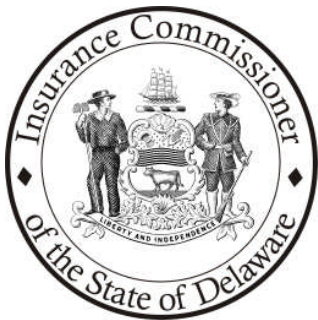
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**MT. MCKINLEY INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 25 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 25TH DAY OF JUNE 2008.

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
**OF THE**  
**MT. MCKINLEY INSURANCE COMPANY**  
**AS OF**  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 25TH Day of JUNE 2008.

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## **SALUTATION**

April 30, 2008

Honorable Alfred W. Gross  
Chairman – NAIC Financial Condition  
(E) Subcommittee  
State Corporation Committee  
P.O. Box 1157  
Richmond, VA 23218

Honorable Merle D. Scheiber  
Secretary, Midwestern Zone (III), NAIC  
South Dakota Division of Insurance  
Department of Revenue and Regulation  
445 East Capitol Avenue  
Pierre, SD 57501-3185

Honorable Steven M. Goldman  
Secretary, Northeastern Zone (I), NAIC  
State of New Jersey Department of Insurance  
Commissioner of Insurance  
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P.O. Box 325  
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Honorable Morris Chavez  
Secretary, Western Zone (IV), NAIC  
Superintendent, New Mexico Public Regulation  
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Santa Fe, New Mexico 87504-1269

Honorable Julie Mix McPeak  
Secretary, Southeastern Zone (II), NAIC  
Office of Insurance  
Commonwealth of Kentucky  
P.O. Box 517  
Frankfort, KY 40602-0517

Honorable Matthew P. Denn  
Insurance Commissioner  
State of Delaware  
Department of Insurance  
841 Silver Lake Boulevard, Suite 100  
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07.018 dated September 18, 2007, an examination has been made of the affairs, financial condition and management of

### **MT. McKINLEY INSURANCE COMPANY**

hereinafter referred to as “Company” or “MMIC” incorporated under the laws of the State of Delaware. The examination was conducted at the administrative office of the Company located at 477 Martinsville Road, Liberty Corner, New Jersey. This examination of the Company was conducted concurrently with that of its affiliates, Everest Reinsurance Company (Everest Re), Everest National Insurance Company (ENIC) and Everest Indemnity Insurance Company (EIIC).

Separate reports of examination were filed for each company. The report of examination is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last filed examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2003. This examination of the Company covered the period from January 1, 2004, through December 31, 2006, and consisted of a general survey of the Company's business practices and policies; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events subsequent to the latter date were reviewed and have been commented upon throughout the examination report to the extent deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regards to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under 18 Del. C. §526(a), and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed without exception and are included in the workpapers of this examination:

Corporate Records  
Conflict of Interest  
Fidelity Bond and Other Corporate Insurance  
Compliance with prior examination recommendations  
All Asset and Liability Items Not Mentioned

The examination was conducted by the Delaware Department of Insurance in accordance with the Association Examination Guidelines established by the NAIC. The Company was not eligible for zone participation.

Workpapers prepared by the Company's external accounting firm, Pricewaterhouse-Coopers LLP (PwC), New York, New York, in connection with their annual audit, were reviewed and relied upon to the extent possible.

INS Services, Inc. was retained by the Delaware Insurance Department to conduct a review of the Company's overall control risk related to information system controls.

## **HISTORY**

The Company (originally named Gibraltar Casualty Insurance Company) was incorporated under the laws of Delaware on May 18, 1978, as a stock multi-line property and casualty insurer. At that time, all of the outstanding capital stock of the Company was owned by The Prudential Insurance Company of America (The Prudential).

The Company was formed to underwrite domestic excess limits coverage and lines that do not conform to normal underwriting patterns and, as such, require the specialized treatment afforded to surplus lines. The Company became part of The Prudential's holding company system on May 18, 1978. At that time, the Company was a direct subsidiary of the Prudential Reinsurance Company (currently named Everest Reinsurance Company). In 1985, the Company voluntarily discontinued writing business and has since been operating in run-off status. On

December 17, 1991, Prudential Reinsurance Company distributed 100% of the stock of the Company to its parent PRUCO, Inc., which, on the same day, distributed 100% of the shares to its parent, The Prudential. On September 19, 2000, The Prudential sold the Company to Everest Reinsurance Holdings, Inc. (Holdings), a Delaware company, and the name changed to Mt. McKinley Insurance Company.

The Company's registered office in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware 19801. The registered agent to whom process may be served is the Corporation Trust Company.

### **CAPITALIZATION**

At December 31, 2006, the Company had 2,000 common shares authorized with a par value of \$5,000 per share, of which 2,000 shares were issued and outstanding.

	<b><u>Common Capital Stock</u></b>	<b><u>Gross paid in and contributed Surplus</u></b>	<b><u>Unassigned funds (surplus)</u></b>	<b><u>Surplus as regards policyholders</u></b>
<b>December 31, 2003</b>	\$ 10,000,000	\$7,119,267	\$794,718	\$17,913,985
<b>Operations (1)</b>				
2004 Operations			338,264	338,264
2005 Operations			(426,335)	(426,335)
2006 Operations			1,842,260	1,842,260
<b>December 31, 2006</b>	<u>\$10,000,000</u>	<u>\$7,119,267</u>	<u>\$2,548,907</u>	<u>\$19,668,174</u>

(1) Operations are defined as: Net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in nonadmitted assets and change in provision for reinsurance.



## **MANAGEMENT AND CONTROL**

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property and affairs are managed by or under the direction of its Board of Directors (Board). The Board consists of at least three members and no more than five members.

The Board of Directors is currently comprised of three members. The members of the Board are elected for a term of one year and serve until the next annual meeting of the shareholder and until their successors are qualified and elected.

The members of the Board of Directors serving as of December 31, 2006, were as follows:

<b><u>Director's Name</u></b>	<b><u>Principal Business Affiliation</u></b>
James Huff Foster	Mt. McKinley Insurance Company
Thomas James Gallagher	Everest Reinsurance Company
Craig Edward Eisenacher (Chairman)	Everest Reinsurance Company

With the exception of Mr. Eisenacher, who was elected effective December 18, 2006, upon the resignation of Stephen L. Limauro, the other two directors were elected at the annual shareholder meeting held on June 21, 2006.

The bylaws of the Company state that the elected officers of the Company includes a President, one or more Vice Presidents, a Treasurer, a Comptroller, a Corporate Secretary and such additional officers as it may from time to time be decided by a resolution adopted by a majority of the Board. The Board of Directors may also designate from among the vice presidents such number of executive or senior vice presidents as may be deemed appropriate.

At December 31, 2006, the Company's principal officers and their respective titles are as follows:

<b><u>Officer</u></b>	<b><u>Title</u></b>
James Huff Foster	President
Keith Thomas Shoemaker	Vice President and Comptroller
Sanjoy Mukherjee	Vice President and Secretary
Gary Irwin Koupf	Actuary
Frank Nicolas Lopapa	Treasurer

During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

### **INSURANCE HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001(4) "Insurance holding company system". Holding Company registration statements were properly filed by the Company with the Delaware Insurance Department.

All of the common stock is owned by Holdings, a Delaware domiciled company. The ultimate controlling entity of the holding company system is Everest Re Group, Ltd. (Group), a Bermuda holding company. Group's stock is traded on the New York Stock Exchange under the symbol "RE". As of December 31, 2006, Group, on a consolidated U.S. Generally Accepted Accounting Principles basis (GAAP), reported approximately \$17.1 billion in assets and \$5.1 billion in shareholders' equity.

The following organizational chart, of which the Company is a part, illustrates the identities and relationships between its parent, affiliates and subsidiaries as of December 31, 2006:

	<b><u>Domicile</u></b>	<b><u>% ownership</u></b>
Everest Re Group, Ltd.	Bermuda	
Everest Re Advisors, Ltd.	Bermuda	100%
Everest Advisors (Ireland) Limited	Ireland	100%
Everest Advisors (UK), Ltd.	United Kingdom	100%
Everest Reinsurance (Bermuda), Ltd.	Bermuda	100%
Everest International Holdings, Ltd.	Bermuda	100%
Everest Global Services, Inc.	Delaware	100%

Everest International Reinsurance, Ltd.	Bermuda	100%
Everest Reinsurance Holdings, Inc.	Delaware	100%
Everest Re Capital Trust	Delaware	100%
Everest Re Capital Trust II	Delaware	100%
<b>Mt. McKinley Insurance Company</b>	Delaware	100%
Mt. McKinley Managers, LLC	New Jersey	100%
Workcare Southeast, Inc.	Alabama	100%
Workcare Southeast of Georgia, Inc.	Georgia	100%
Everest Reinsurance Company	Delaware	100%
Everest National Insurance Company	Delaware	100%
Everest Insurance Company of Canada	Canada	100%
Everest Indemnity Insurance Company	Delaware	100%
Everest Security Insurance Company	Georgia	100%

## **AGREEMENTS**

### **Service Agreements**

Effective January 1, 2001, the Company entered into a service agreement with Everest Re, pursuant to which each party agrees to provide administrative, consultative and other support services to the other. In return, the recipient agrees to pay the provider 106%, or other such rate as shall be mutually agreed to by the parties, of its costs and expenses incurred in providing these services. The services provided by Everest Re related primarily to other support services. Amounts incurred by the Company for services provided by Everest Re under this agreement in 2006 were \$78,046.

Effective January 1, 2001, the Company entered into a service agreement with Everest Global Services, Inc. (EGS), pursuant to which each party agrees to provide administrative, consultative and other support services to the other. In return, the recipient agrees to pay the provider 106%, or other such rate as shall be mutually agreed to by the parties, of its costs and expenses incurred in providing these services. The services provided by EGS under this agreement related primarily to personnel and administrative services. Amounts incurred by the Company for services provided by EGS under this agreement in 2006 were \$1,753,808. The

above mentioned agreements were replaced with a new service agreement effective January 1, 2008, as detailed in the “Subsequent Events” section of this report.

#### Tax Allocation Agreement

Effective January 1, 2001, the Company entered into a tax allocation agreement with Holdings along with its affiliates. Holdings and affiliates constitute an affiliated group within section 1504(a) of the Internal Revenue Code of 1986 of which Holdings is the common parent and, therefore, are eligible to file a consolidated income tax return for United States federal income tax purposes and to pay federal income taxes on a consolidated basis if necessary. Pursuant to the terms of the tax allocation agreement, no party is required to pay more in taxes or receive a lesser refund than would have been applicable if it computed its taxes independently and filed a separate tax return.

#### Surplus Maintenance Agreement

Attendant with its purchase, effective September 19, 2000, the Company entered into a surplus maintenance agreement with Holdings. The agreement as approved by the Delaware Department of Insurance states that Holdings guarantees that the Company’s capital and surplus will not fall below \$15 million. Since September 19, 2000, the Company’s capital and surplus has been above \$15 million.

#### Guarantee Agreements

The Company entered into a parental guarantee with Holdings effective May 5, 2004. The agreement is in favor of Foster Wheeler LLC (Foster Wheeler) and the 2005 Asbestos Claims Settlement Trust (Asbestos Trust) to guarantee the payment obligations of the Company and Everest Re. As of the examination date the Company had \$15 million outstanding.

The Company entered into an additional agreement effective May 15, 2005, between Coltec Industries, Inc., Everest Re and the Company with regard to a complete buyback of policies issued by the Company. Everest Re has guaranteed settlement payment if the Company is unable to meet its payment obligations. As of the examination date, the Company had \$14 million outstanding.

#### Investment Advisory Agreement

The Company and its affiliates share a common investment manager, Deutsche Investment Management Americas, Inc. (Deutsche). The agreement, effective September 19, 2000, authorizes Deutsche to supervise and direct all investments and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions must be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Deutsche in writing from time to time. Investment management fees are based upon a percentage of assets. The total investment expense incurred by the Company for 2006 was approximately \$9,000.

### **TERRITORY AND PLAN OF OPERATIONS**

The Company is a direct-writer property and casualty company licensed in Delaware and California and is approved to write excess and surplus lines business in 28 states, the District of Columbia and Puerto Rico. Since March 4, 1985, the Company has been voluntarily inactive with no plans on the part of management to reactivate operations. All affairs are conducted at the Company's home office located in Liberty Corner, New Jersey.

Since the purchase of the Company and subsequent cession of all net balances to Everest Reinsurance (Bermuda), Ltd., the Company's intention is to commute balances with the Management Underwriting Facility (MUF) [refer to the Reinsurance section for further

information]. During the examination period, the Company was successful in commuting several reinsurance agreements with MUF participants.

### **GROWTH OF COMPANY**

The following information was obtained from the Company's filed annual statements and covers the period from the prior examination to December 31, 2006:

<b>Year</b>	<b>Net Written Premiums</b>	<b>Net Admitted Assets</b>	<b>Liabilities</b>	<b>Common Stock</b>	<b>Gross paid in and contributed surplus</b>	<b>Unassigned funds (surplus)</b>	<b>Surplus as regards policyholders</b>
2003	\$0	\$18,349,376	\$ 435,391	\$10,000,000	\$7,119,267	\$ 794,718	\$17,913,985
2004	0	90,980,086	72,727,837	10,000,000	7,119,267	1,132,982	18,252,249
2005	0	126,208,807	108,382,893	10,000,000	7,119,267	706,647	17,825,914
2006	0	35,959,655	16,291,481	10,000,000	7,119,267	2,548,907	19,668,174

The fluctuation in assets, liabilities and surplus of the Company is a result of the continued run-off of business and the timing effects of payments regarding the inter-company balances in the reinsurance program.

### **REINSURANCE**

The Company voluntarily discontinued writing direct business in 1985 and continues to run off losses. A review was made of all reinsurance contracts with no exceptions or deviations from law or accounting practices noted. The information below summarizes material active reinsurance agreements in effect as of the examination date.

The Company has mass action liabilities related to business assumed in connection with commutations of reinsurance agreements by the MUF participants (MUF buyback) which account for most of the non-affiliated remaining assumed reinsurance carried at December 31, 2006.

Effective October 5, 1995 the Company and Everest Re entered into a Stop Loss Agreement to provide protection up to \$375,000,000 against any adverse development on the

assumed business. The Company was to provide protection to Everest Re for 100% of the first \$150,000,000 of adverse development and 90% of the next \$250,000,000. The agreement terminated on December 31, 2007. Funding for the agreement came from a \$140,000,000 premium payment by Everest Re.

In connection with the September 19, 2000 acquisition, Prudential Property and Casualty Company of Indiana (PruPac) provided an excess of loss reinsurance contract for 100% of the first \$8.5 million of loss associated with the Company's reserve for potentially uncollectible reinsurance. The available limit as at December 31, 2006 was \$540,000. In addition, the Company obtained an agreement from PruPac covering 80%, or \$160 million, of the first \$200 million of any adverse loss development on the carried reserves as of the acquisition date and reimburses the Company as such losses are paid by the Company. Cessions under this contract were \$81 million, \$57 million and \$22 million in 2003, 2002 and 2001, respectively, exhausting the limit available under this contract. During the examination period PruPac was sold to LM Property and Casualty Insurance Company (Liberty Mutual). As of the examination date, \$100.9 million of the aforementioned cessions remained unpaid. Subsequent to the examination date, \$9 million remained unpaid as of March 2008.

Shortly after the acquisition of the Company, the Company entered into a 100% quota share (referred to as the Loss Portfolio transfer) with Everest Reinsurance (Bermuda), Ltd. (Everest Bermuda), a wholly owned subsidiary of Everest Re Group, Ltd. This transaction, which was approved by the Delaware Insurance Department on November 19, 2000, transferred all net liabilities to Everest Bermuda. Consideration for this transfer amounted to \$484,809,986.

### **ACCOUNTS AND RECORDS**

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The Company operates in a computer dominated environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

### **FINANCIAL STATEMENTS**

The following financial statements as determined by this examination are presented herein:

Analysis of Assets as of December 31, 2006  
Liabilities, Surplus and Other Funds as of December 31, 2006  
Underwriting and Investment Exhibit - Statement of Income for 2006  
Capital and Surplus Account for the one-year period ending December 31, 2006



**Analysis of Assets**  
**As of December 31, 2006**

<u>Assets</u>	<u>Ledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 299,866		\$ 299,866	(1)
Cash on hand and on deposit and short-term investments	15,271,796		15,271,796	(2)
Investment income due and accrued	67,061		67,061	
Reinsurance recoverable on loss and loss adjustment expense Payments	17,271,242		17,271,242	(3)
Net deferred tax asset	34,894	\$ 31,393	3,501	
Aggregate write-ins for other than invested assets	3,046,189		3,046,189	
Totals	<u>\$35,991,048</u>	<u>\$ 31,393</u>	<u>\$35,959,655</u>	

**Liabilities, Surplus and Other Funds**  
**As of December 31, 2006**

		<u>Note</u>
Losses and loss adjustment expenses	-0-	(4)
Reinsurance payable on paid losses and loss adjustment exp.	\$14,954,350	(3)
Other expenses	102,941	
Current federal income taxes payable	724,325	
Amounts withheld by company for account of others	142,850	
Payable to parent, subsidiary and affiliate	365,321	
Aggregate write-ins for liabilities	<u>1,694</u>	
Total liabilities	<u>\$16,291,481</u>	
 Common capital stock	 \$10,000,000	
Gross paid in and contributed surplus	7,119,267	
Unassigned funds	<u>2,548,907</u>	
Surplus as regards policyholders	<u>\$19,668,174</u>	
Total	<u>\$35,959,655</u>	

**Underwriting and Investment Exhibit: Statement of Income**  
**For the Year Ended December 31, 2006**

Note

Underwriting Income

Premiums earned	\$ -0-
Deductions:	
Losses incurred	-0-
Loss expenses incurred	-0-
Other underwriting expenses incurred	<u>100,172</u>
 Total underwriting deductions	 \$ <u>100,172</u>
 Net underwriting gain (loss)	 \$ <u>(100,172)</u>

Investment Income

Net investment income earned	\$ <u>1,298,912</u>
Net realized capital gains (losses)	<u>1,062,183</u>
 Net investment gain (loss)	 \$ <u>2,361,095</u>
 Net loss from balances charged off	 \$ 0
Aggregate write-ins for miscellaneous income	<u>25,560</u>
 Total other income	 \$ <u>25,560</u>
 Net income before federal income taxes	 \$ 2,286,483
Federal income taxes incurred	<u>445,973</u>
 Net income	 \$ <u>1,840,510</u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31, 2005	\$ <u>17,825,914</u>
 Net income	 \$ 1,840,510
Change in net deferred income tax	17,467
Change in nonadmitted assets	<u>(15,717)</u>
Change in surplus as regards policyholders for the year	\$ <u>1,842,260</u>
 Surplus as regards policyholders, December 31, 2006	 \$ <u>19,668,174</u>

There were no examination changes proposed for this examination.

**NOTES TO FINANCIAL STATEMENTS**

1) Bonds \$299,866

Bonds held are U.S. Treasury Notes. Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. All bonds owned by the Company are designated as highest quality or “1” by the SVO. Bonds with carrying values of \$214,906 were on deposit with various state or governmental insurance departments in compliance with insurance laws.

2) Cash on hand and on deposit and short-term investments \$15,271,796

The Company had cash on hand of \$2,154,943 and short-term investments of \$13,116,853. Cash of \$1,181,845 was on deposit with various state or governmental insurance departments in compliance with insurance laws. Short-term investments of \$7,353 and \$13,109,500 are held in exempt money market mutual funds and class one money market mutual funds, respectively.

3) Amounts recoverable from reinsurers \$17,271,242  
Reinsurance payable on paid losses and loss adjustment expenses \$14,954,350

Amounts recoverable from reinsurers are all from affiliated companies related to asbestos exposures assumed from Everest Re. Bermuda owes the Company \$5.7 million under the loss portfolio transfer with the remainder due from Everest Re. The reinsurance payable on paid losses is due to Everest Re. The balances are fully collateralized under a reinsurance trust agreement.

4) <u>Loss Reserves</u>	<u>\$0</u>
<u>Loss Adjustment Expense Reserves</u>	<u>\$0</u>

As discussed under the Reinsurance section of this report, all loss and loss adjustment expense (LAE) reserves have been ceded. Direct and assumed case loss reserves amounted to \$283,168,545. Gross incurred but not reported (IBNR) reserves amounted to \$121,610,414.

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for loss and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectibility of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company's filed annual statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. The review was conducted in conjunction with the current financial examination. As a result of this study, the reserves were accepted .

## **SUMMARY OF RECOMMENDATIONS**

There are no current examination recommendations.

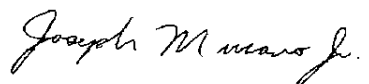
## **CONCLUSION**

As a result of this examination, the financial condition of the Mt. McKinley Insurance Company, as of December 31, 2006, was determined as follows:

<u>Description</u>	<u>12/31/06 Current Examination</u>	<u>12/31/03 Prior Examination</u>	<u>Changes Increase (Decrease)</u>
Assets	<u>\$35,959,655</u>	<u>\$18,349,376</u>	<u>\$17,610,279</u>
Liabilities	16,291,481	435,391	15,856,090
Common capital stock	10,000,000	10,000,000	0
Gross paid in and contributed capital	7,119,267	7,119,267	0
Unassigned funds (surplus)	<u>2,548,907</u>	<u>794,718</u>	<u>1,754,189</u>
Total surplus as regards policyholders	<u>\$19,668,174</u>	<u>\$17,913,985</u>	<u>\$ 1,754,189</u>
Totals	<u>\$35,959,655</u>	<u>\$18,349,376</u>	<u>\$17,610,279</u>

In addition to the undersigned, acknowledgment is made of the assistance provided by the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc.

Respectfully submitted,



Joseph J. Murano, CFE  
Examiner-in-Charge  
State of Delaware  
Northeastern Zone, NAIC

## **SUBSEQUENT EVENTS**

### **Service Agreement**

Effective January 1, 2008, the Company entered into a service agreement with all affiliates of the Everest Re Group, thereby replacing the existing individual service agreements of Everest Re and EGS previously mentioned under the “Agreements” section of this report. Each affiliate agrees to provide administrative, consultative and other support services to the other affiliates as needed. In return, the recipient affiliate agrees to pay the service-providing affiliate 108% of its costs and expenses incurred in providing those services. The new service agreement, which was approved by the Delaware Department of Insurance on January 31, 2008, addresses and allows for payments of convenience.